

The Physician Fee Index and Other Economic Indicators—Recent Changes and Outlook

A Socio-Economic Report of the Bureau of Research and Planning,
California Medical Association

● *Figures compiled by the Bureau of Research and Planning show that the California Physician Fee Index increased 3.0 percent in the last six months of 1969, compared with 2.5 percent in the first six months. Nationally, physicians' fees increased at a slightly slower rate—2.9 percent during the last half of the year, according to the U. S. Bureau of Labor Statistics. This was the first time since 1965 that physicians' fees increased faster in California than nationally. In the seven and a half years since the California Physician Fee Index was started, fees have shown an increase of 36.3 percent in the state and 42.9 percent for the whole country.*

The "all items" component of the Consumer Price Index published by the Bureau of Labor Statistics increased 6.1 percent in 1969, while the medical care component increased 6.0 percent. This, too, marks the end of a trend which had showed more rapid increases in medical care costs than in the cost of all goods and services.

CALIFORNIA PHYSICIANS' FEES increased 3.0 percent in the last six months of 1969, according to the continuing Physician Fee Index Survey conducted by the CMA Bureau of Research and Planning. During the same period, the Bureau of Labor Statistics of the U. S. Department of Labor reported that fees rose 2.9 percent nationally. Although the increase in California was only slightly higher than the national increase, it marked the interruption of a long-term trend which showed fees rising faster nationally than in the state.

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The California Physician Fee Index has been compiled since mid-1962. For the first two years, fees rose faster in California than nationally. In 1965, this trend was reversed and until this most recent period the national rate of increase was consistently sharper than the rate of change of California. These long-term trends are graphically illustrated in Chart 1. All Physician Fee Index figures since 1962, for the United States and California, are contained along with other economic indicators in Table 1.

The level of fees in California increased more rapidly in the last half of the year than in the first half (2.5 percent in the first six months; 3.0

percent in the last six months). This 3.0 percent increase is the highest six-month increase in California fees since 1966. Furthermore, the total increase for 1969, which amounted to 5.6 percent, is the highest annual rate of increase since 1966. It is also of importance that the 1969 increase is significantly higher than the 4.2 percent recorded in 1968.

Nationally, physicians' fees rose a total of 7.3 percent in 1969, the highest rate of increase for this component since 1966. In contrast to California, fees on the national level rose faster in the first half of the year than in the second half (4.3 percent from December 1968 to June 1969 vs. 2.9 percent from June 1969 to December

1969). This slower rate of increase in the last six months of 1969 also appeared in other subsections of the Medical Care component of the Consumer Price Index.

Comparison with Other Price Changes

The entire Consumer Price Index (CPI) increased at a faster rate in 1969 than did the medical care component. This reverses an eight year trend of medical care prices rising faster than the Consumer Price Index. The annual increase for the CPI in 1969 was 6.1 percent, while the medical care component increased at a slightly slower rate of 6.0 percent. Table 1 contains index figures for the U. S. from 1962 to 1969 for the CPI

TABLE 1.—Selected Quarterly Figures from the U. S. Consumer Price Index and the California Physicians' Fee Index, June 1962-December 1969 (June 1962=100)

United States							
Date	Consumer prices ¹	Medical care ¹	Physician fees ¹	Dentist fees ¹	Hospital care ¹	Prescriptions and drugs ¹	California physicians' fees
1962: June	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September	100.7	100.3	100.4	100.6	101.3	98.9	100.6
December	100.5	100.8	101.1	101.8	102.3	98.5	101.6
1963: March	100.8	101.5	102.0	102.0	105.4	98.7	103.0
June	101.2	102.5	102.2	102.7	106.6	98.7	103.9
September	101.7	102.7	102.5	103.9	108.0	98.7	104.8
December	102.2	103.1	103.0	103.9	109.0	98.5	105.8
1964: March	102.4	103.9	104.0	105.1	112.9	99.1	106.8
June	102.5	104.3	104.5	105.1	111.8	98.6	107.4
September	102.9	104.7	²	²	²	²	108.8
December	103.3	105.2	106.1	107.1	113.9	98.1	108.8
1965: March	103.5	106.2	²	²	²	²	109.9
June	104.5	106.9	108.2	108.7	117.9	98.1	110.8
September	104.7	107.3	²	²	²	²	111.7
December	105.4	108.1	110.2	110.0	121.5	98.1	112.5
1966: March	106.4	109.5	112.2	110.7	124.3	98.4	³
June	107.2	111.0	114.4	112.0	127.0	98.6	116.1
September	108.3	113.1	116.9	113.7	133.4	98.5	³
December	108.9	115.3	118.8	115.1	141.5	98.3	119.1
1967: March	109.2	117.7	121.1	116.5	150.2	98.0	³
June	110.1	119.2	122.7	117.5	154.7	97.7	121.4
September	111.2	121.1	124.6	119.3	157.8	97.9	³
December	112.2	122.8	126.0	121.0	163.4	98.1	123.9
1968: March	113.5	125.0	128.0	123.0	170.0	98.2	³
June	114.8	126.3	129.5	124.1	173.6	98.0	126.6
September	116.0	128.0	131.0	125.8	179.2	98.0	³
December	117.4	130.4	133.2	127.1	185.0	98.5	129.1
1969: March	119.2	133.4	136.3	129.7	192.6	98.8	³
June	121.1	135.8	138.9	133.5	196.2	99.3	132.3
September	122.7	137.9	141.1	135.2	202.5	99.3	³
December	124.6	138.3	142.9	136.7	207.1	99.6	136.3

¹The Consumer Price Index, "Selected Items and Groups," U. S. Department of Labor, Bureau of Labor Statistics.

²Quarterly data temporarily changed to semi-annual; information for quarter not available.

³Quarterly figures not compiled.

Figure 1

The Physician Fee Index in the United States and California,
June 1962 to December 1969

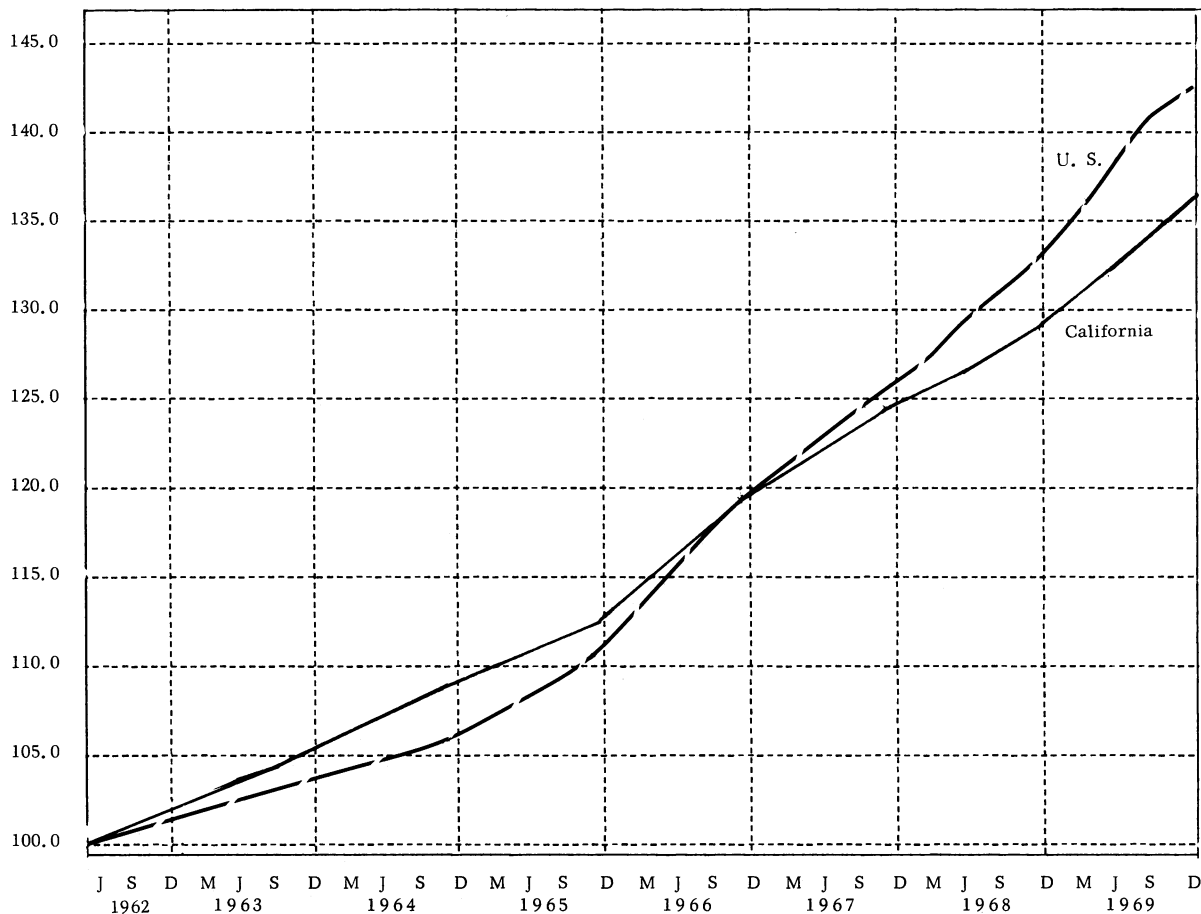


Chart 1.—The Physician Fee Index in the United States and California, June 1962 to December 1969

and the medical care component. Also included in Table 1 are figures from the California Physician Fee Index for the same period. The annual percentage increases for these indices are contained in Table 2.

A factor contributing to the apparently slower rate of increase in the medical care component during the last quarter of 1969 is the method used by the Bureau of Labor Statistics in determining a total health care insurance price. The Bureau's pricing method provides for an annual adjustment in applicable portions of the medical care sector of the index, based on the change in the cost of health insurance. The effect of this annual adjustment is demonstrated in figures for the latter part of 1969.

Dentists' fees increased 7.5 percent in 1969. This is the first year since 1964 that the percentage increase for this component has exceeded

that for physicians' fees. Dentists' fees increased much faster in the first half of the year (5.0 percent) than in the second half (2.4 percent). Prescriptions and drugs have maintained a rather steady price level since 1962. The 1.1 percent increase in 1969 is higher than any annual increase in recent years. As has been pointed out in earlier reports this is mainly attributable to the way the index is constructed and does not necessarily reflect changes in the cost of drugs which are being prescribed.

During 1969, hospital charges rose 12.0 percent. Although this is a significant rate of increase, it is the smallest recorded in the past three years. Like physicians' fees and dentists' fees, hospital charges increased at a slower rate in the last half of the year (6.1 percent in the first six months against 5.6 percent in the last six months).

TABLE 2.—Percent Increase in Selected Price Indices for 12-month Periods Ending in December: U. S. and California, 1963-1969

<i>Index</i>	<i>1963 Percent</i>	<i>1964 Percent</i>	<i>1965 Percent</i>	<i>1966 Percent</i>	<i>1967 Percent</i>	<i>1968 Percent</i>	<i>1969 Percent</i>
U.S.:							
CPI (all items)	1.7	1.1	2.0	3.3	3.0	4.7	6.1
Medical care	2.3	2.0	2.8	6.6	6.4	6.2	6.0
Physicians' fees	1.9	3.0	3.9	7.8	6.1	5.7	7.3
Dentists' fees	2.1	3.1	2.7	4.6	5.1	5.0	7.5
Hospital charges	6.5	4.5	6.8	16.5	15.5	13.2	12.0
California:							
Physicians' fees	4.1	2.8	3.4	5.9	4.0	4.2	5.6

The nation experienced a moderate decline in the rate of price increases for all goods and services in the last half of 1969. During this period, the "all items" increase amounted to 2.9 percent, and the service component rose 3.5 percent. These are lower than the increases in the first six months of the year of 3.2 percent and 3.8 percent, respectively.

The Outlook

The slower rate of increase in the medical care sector and the total CPI illustrates that the economy slowed down somewhat in the latter part of 1969. This suggests a degree of success on the part of the government's anti-inflationary policies. However, in a closer look at economic trends, the BLS predicted that 1970 would be another year of rising costs.

The last few months of 1969 saw leading indicators such as the Federal Reserve Board Index of Industrial Production, Personal Income and various stock market indices turn downward, protracting a slowing down of the economy. This trend was confirmed by pessimistic reports of other indicators such as sales in retail stores and of automobiles. Nevertheless, economic forecasters do not expect this slowdown in production and sales to cause a near-term reduction in prices of goods and services. At best, some stabilizing in the rates of increase may result.¹

According to the BLS, price action historically follows the movement of the economy as a whole. There is no definite length of time which can be attributed to this lag; however, a minimum term of six months is generally accepted.

The overall prediction of the BLS for 1970 was that the present rate of inflation will certainly not decline and, rather than slowing, may actually increase. Prices will probably rise at about

the same rate as experienced in the last half of 1969. These forecasts are, of course, predicted on a continuation of current governmental fiscal policies.

Medical care costs are expected to follow the same pattern as the rest of the economy. Should this be the case, the result would be an increase in the medical care component of the CPI of at least six percent during 1970.

A Few Words about Methods

The data on which the California Physician Fee Index is based are secured from a continuing study conducted by the CMA Bureau of Research and Planning. A mail questionnaire elicits information from a group of approximately 1,000 randomly selected physicians as to their "usual and customary" fees for 26 medical, surgical, radiological, and laboratory procedures. Each procedure is weighted according to the frequency of its performance within the State, based upon relative occurrences within a large sample of health insurance claims. Hence, slight changes in the average charge for a routine office visit would have a substantially greater effect on the Index than would a similar dollar or percent change in the charge for an appendectomy. The weighting system considers the cost of the procedure in addition to its frequency of occurrence. The total Index, then, represents the change in the costs of a "total package" of physicians' services.

Each physician respondent is requested to enter his usual and customary fee for any of the listed procedures which he may have performed during the six-month period preceding each survey date. Definitions of the procedures included in the questionnaire appear in the 1964 edition of the Relative Value Studies published

by the California Medical Association. Included in the index computations are only those fees for procedures which an individual respondent has performed within two successive periods. This method helps to insure comparability of data over the elapsed time period and also serves to exclude fees charged by physicians for procedures they perform only in rare instances.

The Index is calculated on the basis of weighted mean figures. The average fee for each procedure is multiplied by its relative frequency of performance. Weighted averages for the 26 procedures are then totaled, with comparisons between survey periods forming the Index. Only two successive periods are used to compute any index figure because the natural attrition of respondents over time can cause meaningless changes in average fees. Hence, every figure from

every physician included in computations for the December Index has a June counterpart.

The sample of physicians is replaced every 18 months, at which time a new sample of 1,000 is "linked in" and forms the base for further updating. For example, the current sample of physicians was replaced in June 1970. They will provide data at that time for updating the Index through June; replies from a *new* sample group, which will also be sent questionnaires for the June period, will form the base for subsequent Index changes. This technique is employed in calculating all indices which represent changes over periods of time.

REFERENCE

1. Medical Care Prices—The Outlook for 1970. National Association of Blue Shield Plans, Research and Development Bulletin, Jan 30, 1970

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